

**SOUTHEAST WEBSTER
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2005

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SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2004 Election)

Todd Lundgren	President	2004
David Mickelson	Vice President	2005
Dan Hansen		2004
Grant Gibbons		2005
Michelle Stapp		2006

(After September, 2004 Election)

Todd Lundgren	President	2005
David Mickelson	Vice President	2005
Dan Hansen		2005
Grant Gibbons		2005
Michelle Stapp		2005

SCHOOL OFFICIALS

Dr. Mike Jorgensen	Superintendent
Karla Flickinger	District Secretary/ Treasurer

Independent Auditor's Report

To The Board of Education of the
Southeast Webster Community School District:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Southeast Webster Community School District, Burnside, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Effective July 1, 2005 the Southeast Webster Community School District will reorganize with the Grand Community School District to form the Southeast Webster Grand Community School District.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of Southeast Webster Community School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated July 15, 2005 on our consideration of Southeast Webster Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 thru 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Southeast Webster Community School District's basic financial statements. We previously audited the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 8, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

July 15, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Southeast Webster Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- ! General Fund revenues increased from \$3,959,024 in fiscal 2004 to \$4,225,540 in fiscal 2005, while General Fund expenditures increased from \$4,088,214 in fiscal year 2004 to \$4,428,631 in fiscal 2005.
- ! The increase in both revenues and expenses were primarily related to a Charter School Program that was begun in fiscal 2005. Additional Federal and State funds of over \$350,000 for this program accounted for the majority of the increases.
- ! The District collects School Infrastructure Local Option Sales Tax from Webster County during the year. These revenues are being used to pay for debt service on revenue bonds.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Southeast Webster Community School District as a whole and present an overall view of the District's finances.

The fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Southeast Webster Community School District operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Southeast Webster Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required supplementary information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other supplementary information provides detailed information about the non-major Special Revenue Funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Southeast Webster Community School District

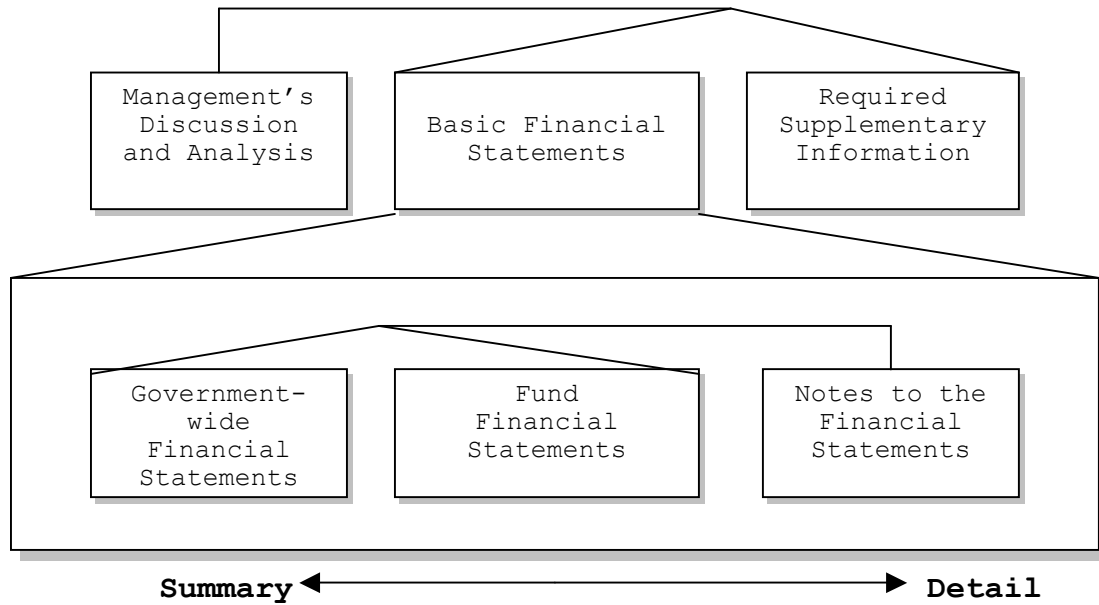


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements			
	Government-Wide Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service
Required financial statements	. Statement of net assets . Statement of activities	. Balance sheet . Statement of revenues, expenditures, and changes in fund balances	. Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- ! *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- ! *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

The required financial statements for proprietary funds include a statement of revenues, expenses, changes in net assets and a statement of cash flows.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District's enterprise funds include the School Nutrition Fund, Eagles Nest and Daycare.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
	\$	\$	\$	\$	\$	\$	
Current assets	2,405	3,246	18	9	2,423	3,255	-25.56%
Capital assets	<u>2,014</u>	<u>1,886</u>	<u>18</u>	<u>24</u>	<u>2,032</u>	<u>1,910</u>	<u>6.39%</u>
Total assets	<u>4,419</u>	<u>5,132</u>	<u>36</u>	<u>33</u>	<u>4,455</u>	<u>5,165</u>	<u>-13.75%</u>
Current liabilities	1,927	2,605	40	32	1,967	2,637	-25.41%
Non-current liabilities	<u>685</u>	<u>860</u>	<u>-</u>	<u>-</u>	<u>685</u>	<u>860</u>	<u>-20.35%</u>
Total liabilities	<u>2,612</u>	<u>3,465</u>	<u>40</u>	<u>32</u>	<u>2,652</u>	<u>3,497</u>	<u>-24.16%</u>
Net Assets							
Invested in capital assets, net of related debt	1,329	1,026	18	24	1,347	1,050	28.29%
Restricted	265	111	-	-	265	111	138.74%
Unrestricted	<u>213</u>	<u>530</u>	<u>(22)</u>	<u>(23)</u>	<u>191</u>	<u>507</u>	<u>-62.33%</u>
Total net assets	<u>1,807</u>	<u>1,667</u>	<u>(4)</u>	<u>1</u>	<u>1,803</u>	<u>1,668</u>	<u>8.09%</u>

The District's combined net assets increased by over 8%, or approximately \$135,000 over the prior year. The largest portion of the District's net assets is invested in capital assets.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased approximately \$316,000 or 62%. This decline was due in part to decreased property tax and unrestricted state revenues as well as expenditures incurred in the Charter School and Federal Vocational education programs.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005.

Figure A-4
Change in Net Assets
(expressed in thousands)

	Governmental Activities	Business-type Activities	Total School District
	\$	\$	\$
Revenues:			
Program revenues:			
Charges for service and sales	358	208	566
Operating grants, contributions and restricted interest	1,119	93	1,212
General revenues:			
Property tax	1,387	-	1,387
Sales tax	180		
Income surtax	136	-	136
Unrestricted state grants	1,552	-	1,552
Unrestricted investment earnings	13	-	13
Other	11	-	11
Total revenues	<u>4,756</u>	<u>301</u>	<u>5,057</u>
Program expenses:			
Governmental activities:			
Instruction	3,227	-	3,227
Support Services	1,106	-	1,106
Non-instructional programs	9	306	315
Other expenses	274	-	274
Total expenses	<u>4,616</u>	<u>306</u>	<u>4,922</u>
Change in net assets	<u>140</u>	<u>(5)</u>	<u>135</u>

Property tax and unrestricted state grants account for 58% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 88% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,755,944 and expenses were \$4,616,081.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(expressed in thousands)		
	Total Cost of Services	Net Cost of Services
	\$	\$
Instruction	3,227	1,926
Support Services	1,106	1,076
Non-instructional programs	9	9
Other expenses	<u>274</u>	<u>129</u>
Totals	<u>4,616</u>	<u>3,140</u>

! The cost financed by users of the District's programs was \$357,618.

! Federal and state governments subsidized certain programs with grants and contributions totaling \$991,509.

! The net cost of governmental activities was financed with \$1,387,512 in property and other taxes and \$1,552,316 in unrestricted state grants.

Business-Type Activities

Revenues for business type activities were \$301,074 and expenses were \$306,183. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2005, the District held meal prices steady. The Nutrition Fund maintained its balance from the prior year. The District's Daycare operation showed a loss for the year.

INDIVIDUAL FUND ANALYSIS

As previously noted, Southeast Webster Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$418,977, a 35 percent decrease over last year's ending fund balances of \$645,237.

Governmental Fund Highlights

- ! The District's decreasing General Fund financial position is the result of several factors. As stated previously, the majority of this decrease is due to decreases in property tax and unrestricted state aid revenues. Also, costs were incurred for the Charter School and Federal vocational programs that benefited future years.
- ! The Physical Plant and Equipment Levy (PPEL levy) decreased over \$40,000 as a result of the District purchasing a new bus and making the final payment on its Capital Loan Notes.
- ! The Capital Projects fund increased over \$11,000 in the fiscal year ending June 30, 2005. This money can be used for many of the same purposes as the District's PPEL levy. The District is currently prioritizing projects for use of these funds that remain after debt service requirements are met.

Proprietary Fund Highlights

The School Nutrition Fund balance maintained its position during the fiscal year ending June 30, 2005.

BUDGETARY HIGHLIGHTS

The District's receipts were \$41,698 less than budgeted receipts, a variance of 1%. The most significant variance resulted from the District receiving less in state aid than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year. Expenditures did exceed the amount budgeted in the Other Expenditures functional area due to a change in spending priorities, however, the budget as a whole was not exceeded.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$2,014,263, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 7% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$135,554.

The original cost of the District's capital assets was \$4,021,009. Governmental funds account for \$3,971,678, with the remainder of \$49,331 accounted for in the Proprietary, School Nutrition and Daycare Funds.

The largest change in capital asset activity during the year occurred in the equipment category. The District spent over \$100,000 on computers and a new bus.

Figure A-6
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
	\$	\$	\$	\$	\$	\$	
Land	8	8	-	-	8	8	0.00%
Site improvements	-	6	-	-	-	6	-100.00%
Buildings	1,853	1,872	-	-	1,853	1,872	-1.01%
Furniture and equipment	154	-	18	23	172	23	647.83%
Totals	2,015	1,886	18	23	2,033	1,909	6.50%

Long-Term Debt

The District has revenue bonds outstanding of \$685,000. These are paid with proceeds of the Webster County one half cent sales tax. The debt will be fully retired in fiscal year 2009. Details are included in the notes to the financial statements.

The District fully retired its outstanding capital loan notes in Fiscal 2005.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- ! Declining enrollment and the effects of the removal of the 100% budget guarantee will require due diligence on the part of the administration and board of education.
- ! The District's voters approved reorganization with the Grand Community School District effective July 1, 2005. It is hoped that some savings in staffing will be recognized while allowing the District to expand the educational opportunities available to its students.
- ! The Charter School Program appears to be attracting more students to the District. Money from this program provides exciting advanced educational opportunities to our high school students.
- ! Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dr. Michael Jorgensen, Superintendent, Southeast Webster Community School District, 30850 Paragon Ave, Burnside, IA 50521.

Basic Financial Statements

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	381,500	35	381,535
Receivables:			
Property tax:			
Current year	33,511	-	33,511
Succeeding year	1,854,502	-	1,854,502
Income surtax	62,543	-	62,543
Interfund receivable	40,178	-	40,178
Due from other governments	31,970	-	31,970
Other receivables	948	18,295	19,243
Capital assets, net of accumulated depreciation	2,014,263	17,640	2,031,903
Total assets	4,419,415	35,970	4,455,385
Liabilities			
Accounts payable	69,130	-	69,130
Interfund payable	-	40,178	40,178
Accrued interest payable	3,461	-	3,461
Deferred revenue:			
Succeeding year property tax	1,854,502	-	1,854,502
Long-term liabilities:			
Portion due within one year:			
Revenue bonds payable	130,000	-	130,000
Portion due after one year:			
Revenue bonds payable	555,000	-	555,000
Total liabilities	2,612,093	40,178	2,652,271
Net assets			
Invested in capital assets, net of related debt	1,329,263	17,640	1,346,903
Restricted for:			
Management levy	2,795	-	2,795
Physical plant and equipment levy	58,903	-	58,903
Capital projects	203,179	-	203,179
Unrestricted	213,182	(21,848)	191,334
Total net assets	1,807,322	(4,208)	1,803,114

See notes to financial statements.

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

	Program Revenues					Total
	Expenses	Charges for Goods and Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
	\$	\$	\$	\$	\$	\$
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	2,416,634	308,273	691,298	(1,417,063)	-	(1,417,063)
Special instruction	510,537	49,345	96,399	(364,793)	-	(364,793)
Other instruction	299,956	-	155,858	(144,098)	-	(144,098)
	<u>3,227,127</u>	<u>357,618</u>	<u>943,555</u>	<u>(1,925,954)</u>	<u>-</u>	<u>(1,925,954)</u>
Support services:						
Student services	19,412	-	5,046	(14,366)	-	(14,366)
Instructional staff services	72,281	-	-	(72,281)	-	(72,281)
Administration services	440,326	-	-	(440,326)	-	(440,326)
Operation and maintenance of plant services	295,616	-	22,634	(272,982)	-	(272,982)
Transportation services	278,067	-	2,022	(276,045)	-	(276,045)
	<u>1,105,702</u>	<u>-</u>	<u>29,702</u>	<u>(1,076,000)</u>	<u>-</u>	<u>(1,076,000)</u>
Non-instructional programs:						
Food service operations	3,266	-	-	(3,266)	-	(3,266)
Community service operations	5,644	-	-	(5,644)	-	(5,644)
	<u>8,910</u>	<u>-</u>	<u>-</u>	<u>(8,910)</u>	<u>-</u>	<u>(8,910)</u>
Other expenditures:						
AEA flowthrough	143,755	-	143,755	-	-	-
Long-term debt interest	50,713	-	1,571	(49,142)	-	(49,142)
Long-term debt services	800	-	-	(800)	-	(800)
Depreciation (unallocated) *	79,074	-	-	(79,074)	-	(79,074)
	<u>274,342</u>	<u>-</u>	<u>145,326</u>	<u>(129,016)</u>	<u>-</u>	<u>(129,016)</u>
Total governmental activities	<u>4,616,081</u>	<u>357,618</u>	<u>1,118,583</u>	<u>(3,139,880)</u>	<u>-</u>	<u>(3,139,880)</u>

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

	Program Revenues					Total
	Expenses	Charges for Goods and Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
	\$	\$	\$	\$	\$	\$
Business-Type activities:						
Non-instructional programs:						
Nutrition services	185,559	92,392	93,550	-	383	383
Other enterprise operations	120,624	115,132	-	-	(5,492)	(5,492)
	<u>306,183</u>	<u>207,524</u>	<u>93,550</u>	<u>-</u>	<u>(5,109)</u>	<u>(5,109)</u>
Total	<u>4,922,264</u>	<u>565,142</u>	<u>1,212,133</u>	<u>(3,139,880)</u>	<u>(5,109)</u>	<u>(3,144,989)</u>
General revenues:						
Property tax levied for:						
General purposes				1,223,051	-	1,223,051
Management				79,978	-	79,978
Capital outlay				84,483	-	84,483
Local option sales tax				179,501	-	179,501
Income surtax				135,718	-	135,718
Unrestricted state grants				1,552,316	-	1,552,316
Unrestricted investment earnings				12,900	-	12,900
Other				<u>11,796</u>	<u>-</u>	<u>11,796</u>
Total general revenue				<u>3,279,743</u>	<u>-</u>	<u>3,279,743</u>
Change in net assets				139,863	(5,109)	134,754
Net assets beginning of year				<u>1,667,459</u>	<u>901</u>	<u>1,668,360</u>
Net assets end of year				<u>1,807,322</u>	<u>(4,208)</u>	<u>1,803,114</u>

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2005

	General	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	132,579	185,955	62,966	381,500
Receivables:				
Property tax:				
Current year	29,539	-	3,972	33,511
Succeeding year	1,619,900	-	234,602	1,854,502
Income surtax	62,543	-	-	62,543
Interfund receivable	40,178	-	-	40,178
Due from other governments	14,746	17,224	-	31,970
Other receivables	948	-	-	948
Total assets	<u>1,900,433</u>	<u>203,179</u>	<u>301,540</u>	<u>2,405,152</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	69,130	-	-	69,130
Deferred revenue:				
Succeeding year property tax	1,619,900	-	234,602	1,854,502
Succeeding year income surtax	62,543	-	-	62,543
Total liabilities	<u>1,751,573</u>	<u>-</u>	<u>234,602</u>	<u>1,986,175</u>
Fund balances:				
Unreserved	<u>148,860</u>	<u>203,179</u>	<u>66,938</u>	<u>418,977</u>
Total fund balances	<u>148,860</u>	<u>203,179</u>	<u>66,938</u>	<u>418,977</u>
Total liabilities and fund balances	<u>1,900,433</u>	<u>203,179</u>	<u>301,540</u>	<u>2,405,152</u>

See notes to financial statements.

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2005

Total fund balances of governmental funds (Exhibit C)	\$ 418,977
Amounts reported for governmental activities in the statement of net assets are different because:	
Income surtax receivable at June 30, 2005 is not recognized as a revenue until received in the governmental funds, however it is shown as a revenue in the Statement of Activities in the year of levy, thus no deferred revenue is shown in the Statement of Net Assets	62,543
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	2,014,263
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore is not reported as a liability in the governmental funds.	(3,461)
Long-term liabilities, including notes payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(685,000)</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 1,807,322</u></u>

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2005

	General	Capital Projects	Debt Service	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	1,296,226	179,501	-	164,461	1,640,188
Tuition	280,002	-	-	-	280,002
Other	105,648	1,571	-	122,167	229,386
State sources	2,063,584	-	-	161	2,063,745
Federal sources	480,080	-	-	-	480,080
Total revenues	4,225,540	181,072	-	286,789	4,693,401
Expenditures:					
Current:					
Instruction:					
Regular instruction	2,489,157	-	-	43,917	2,533,074
Special instruction	512,274	-	-	-	512,274
Other instruction	192,459	-	-	126,819	319,278
	3,193,890	-	-	170,736	3,364,626
Support services:					
Student services	18,947	-	-	3,702	22,649
Instructional staff services	71,451	-	-	1,520	72,971
Administration services	435,214	-	-	5,112	440,326
Operation and maintenance of plant services	299,142	-	-	1,890	301,032
Transportation services	258,628	-	-	79,671	338,299
	1,083,382	-	-	91,895	1,175,277
Non-instructional programs:					
Food service operations	1,960	-	-	1,306	3,266
Community service operations	5,644	-	-	-	5,644
	7,604	-	-	1,306	8,910

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2005

	General	Capital Projects	Debt Service	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Expenditures (continued):					
Other expenditures:					
AEA flowthrough	143,755	-	-	-	143,755
Long-term debt:					
Principal	-	-	175,000	-	175,000
Interest	-	-	51,293	-	51,293
Services	-	-	800	-	800
	<u>143,755</u>	<u>-</u>	<u>227,093</u>	<u>-</u>	<u>370,848</u>
Total expenditures	<u>4,428,631</u>	<u>-</u>	<u>227,093</u>	<u>263,937</u>	<u>4,919,661</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>(203,091)</u>	<u>181,072</u>	<u>(227,093)</u>	<u>22,852</u>	<u>(226,260)</u>
Other financing sources (uses):					
Operating transfers in	-	-	227,093	531	227,624
Operating transfers out	<u>-</u>	<u>(169,419)</u>	<u>-</u>	<u>(58,205)</u>	<u>(227,624)</u>
	<u>-</u>	<u>(169,419)</u>	<u>227,093</u>	<u>(57,674)</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures and other financing uses	<u>(203,091)</u>	<u>11,653</u>	<u>-</u>	<u>(34,822)</u>	<u>(226,260)</u>
Fund balances beginning of year	<u>351,951</u>	<u>191,526</u>	<u>-</u>	<u>101,760</u>	<u>645,237</u>
Fund balances end of year	<u>148,860</u>	<u>203,179</u>	<u>-</u>	<u>66,938</u>	<u>418,977</u>

See notes to financial statements.

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2005

Net change in fund balances - total governmental funds (Exhibit E) \$ (226,260)

**Amounts reported for governmental activities in the
statement of activities are different because:**

Income surtax receivable at June 30, 2005 is not recognized as income until received in the governmental funds, however it is shown as a revenue in the Statement of Activities. 62,543

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Expenditures for capital assets	\$ 216,503	
Depreciation expense	<u>(88,503)</u>	128,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 580

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 175,000

Change in net assets of governmental activities (Exhibit B) \$ 139,863

See notes to financial statements.

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2005

	School Nutrition	Nonmajor Proprietary Funds	Total
	\$	\$	
Assets			
Cash and pooled investments	35	-	35
Inventories	3,937	14,358	18,295
Capital assets, net of accumulated depreciation	4,742	12,898	17,640
Total assets	<u>8,714</u>	<u>27,256</u>	<u>35,970</u>
Liabilities			
Interfund payable	<u>-</u>	<u>40,178</u>	<u>40,178</u>
Net assets			
Invested in capital assets, net of related debt	4,742	12,898	17,640
Unrestricted	<u>3,972</u>	<u>(25,820)</u>	<u>(21,848)</u>
Total net assets	<u><u>8,714</u></u>	<u><u>(12,922)</u></u>	<u><u>(4,208)</u></u>

See notes to financial statements.

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds

Year ended June 30, 2005

	School Nutrition	Nonmajor Proprietary Funds	Total
	\$		
Operating revenue:			
Local sources:			
Charges for goods and services	92,392	115,132	207,524
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	53,900	-	53,900
Benefits	12,000	-	12,000
Supplies	118,488	-	118,488
Depreciation	1,171	-	1,171
	185,559	-	185,559
Other enterprise operations:			
Salaries	-	69,181	69,181
Benefits	-	12,813	12,813
Supplies	-	32,247	32,247
Depreciation	-	6,383	6,383
	-	120,624	120,624
Total operating expenses	185,559	120,624	306,183
Operating (loss)	(93,167)	(5,492)	(98,659)
Non-operating revenues:			
Interest on investments	90	-	90
State sources	2,983	-	2,983
Federal sources	90,477	-	90,477
	93,550	-	93,550
Change in net assets	383	(5,492)	(5,109)
Net assets beginning of year	8,331	(7,430)	901
Net assets end of year	8,714	(12,922)	(4,208)

See notes to financial statements.

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Combining Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2005

	School Nutrition	Nonmajor Proprietary Funds	Total
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of inventory	-	23,311	23,311
Cash received from sale of services	92,392	91,821	184,213
Cash payments to employees for services	(65,900)	(81,994)	(147,894)
Cash payments to suppliers for goods or services	(109,313)	(40,436)	(149,749)
Net cash provided by (used in) operating activities	(82,821)	(7,298)	(90,119)
Cash flows from non-capital financing activities:			
State grants received	2,983	-	2,983
Federal grants received	79,301	-	79,301
Net cash provided by non-capital financing activities	82,284	-	82,284
Cash flows from capital financing activities:			
Acquisition of fixed assets	-	(1,171)	(1,171)
Cash flows from investing activities:			
Interest on investments	90	-	90
Net increase in cash and cash equivalents	(447)	(8,469)	(8,916)
Cash and cash equivalents beginning of year	482	(31,709)	(31,227)
Cash and cash equivalents end of year	35	(40,178)	(40,143)
Reconciliation of operating income (loss) to net cash used in operating activities:			
Operating income (loss)	(93,167)	(5,492)	(98,659)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:			
Depreciation	1,171	6,383	7,554
Commodities used	11,176	-	11,176
(Increase) in inventory	(2,001)	(8,189)	(10,190)
	(82,821)	(7,298)	(90,119)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:			
Current assets:			
Cash	35	-	35
Current liabilities:			
Interfund payable	-	(40,178)	(40,178)
Total	35	(40,178)	(40,143)

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received federal commodities valued at \$11,176.

See notes to financial statements.

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The Southeast Webster Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Under a 28E whole grade sharing agreement with the Grand Community School District, students in grades 5 and 6 attend Grand while Grand students in Grades 3, 4, and 7 - 12 attend Southeast Webster. The geographic area served includes the Cities of Burnside, Harcourt, Lehigh, and Dayton, Iowa, and agricultural territory in Webster County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Southeast Webster Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Southeast Webster Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Webster County Assessor's Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statements of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Funds are utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The District reports the following major proprietary fund:

The District's major proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District. The remaining proprietary funds are aggregated and reported as other nonmajor proprietary funds.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2004.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa and grants from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Interfund Receivable/Payable - The District's General Fund was deemed to have loaned, \$27,182 to the Enterprise Fund - Eagle's Nest and \$12,996 to Enterprise Fund - Daycare to cover cash deficits in a joint bank account.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the Government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2005.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Expenditures exceeded the amount budgeted in the other expenditures functional area.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2005.

(3) **Capital Assets**

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	8,000	-	-	8,000
Capital assets being depreciated:				
Site Improvements	140,031	-	-	140,031
Buildings	2,782,313	37,471	-	2,819,784
Furniture and Equipment	824,831	179,032	-	1,003,863
Total capital assets being depreciated	3,747,175	216,503	-	3,963,678
Less accumulated depreciation for:				
Site Improvements	133,500	6,531	-	140,031
Buildings	910,581	56,396	-	966,977
Furniture and Equipment	824,831	25,576	-	850,407
Total accumulated depreciation	1,868,912	88,503	-	1,957,415
Total capital assets being depreciated, net	1,878,263	128,000	-	2,006,263
Governmental activities, capital assets, net	1,886,263	128,000	-	2,014,263

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	48,160	1,171	-	49,331
Less accumulated depreciation	<u>24,137</u>	<u>7,554</u>	<u>-</u>	<u>31,691</u>
Business type activities capital assets, net	<u>24,023</u>	<u>(6,383)</u>	<u>-</u>	<u>17,640</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Support services:

Transportation

Unallocated

9,429
79,074
88,503

Business Type activities

Food service operations

Other enterprise operations

1,171

6,383

7,554

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$173,402, \$150,478, and \$151,979 respectively, equal to the required contributions for each year.

(5) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$143,755 for year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) Iowa School Cash Anticipation Program (ISCAP)

The District participated in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2005 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investment	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2004-05A	6/30/04	6/30/05	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no ISCAP advance activity in the General Fund for the year ended June 30, 2005.

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2004-05A	3.000%	2.463%

(7) Revenue Bonds Payable

In June, 2000 the District issued \$1,230,000 of Local Option Sales and Services Tax Revenue Bonds for the purpose of constructing additions to existing buildings. The bonds will be repaid from revenues from the one half cent Local Option Sales and Services Tax levied in Webster County.

Details of the indebtedness at June 30, 2005 are as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006	5.90%	\$ 41,527	130,000	171,527
2007	6.00	33,858	135,000	168,858
2008	6.10	25,757	145,000	170,757
2009	6.15	<u>16,912</u>	<u>275,000</u>	<u>291,912</u>
Total		<u>\$118,054</u>	<u>685,000</u>	<u>803,054</u>

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- b) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- c) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

(8) Capital Loan Note Payable

In September, 2000 The District issued \$250,000 of Capital Loan Notes for the purpose of constructing additions to existing buildings. The notes were fully repaid from proceeds of the District's voted PPEL fund during the year ending June 30, 2005.

(9) Changes in Long Term Debt

A summary of the changes in long-term debt for the year ended June 30, 2005 is as follows:

	Capital Loan Notes	Revenue Bonds	Total
Balance beginning of year	\$55,000	805,000	860,000
Additions	-	-	-
Reductions	<u>55,000</u>	<u>120,000</u>	<u>175,000</u>
Balance end of year	<u>\$55,000</u>	<u>685,000</u>	<u>685,000</u>

(10) Financial Condition

The District's Enterprise Fund - Eagles Nest had a deficit fund balance of \$12,824 at June 30, 2005. The District's Enterprise Fund - Daycare had a deficit fund balance of \$98 at June 30, 2005.

(11) Reorganization

The voters of the District approved reorganization with the Grand Community School District effective July 1, 2005,

(12) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(13) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue:		
Physical Plant and Equipment Levy	Capital Projects	\$ 531
Debt Service	Capital Projects	168,888
	Special Revenue:	
	Physical Plant and Equipment Levy	<u>58,205</u>
		<u>\$227,624</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

Required Supplementary Information

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Actual	Actual	Actual	Original	Final	
	\$	\$	\$	\$	\$	\$
Receipts:						
Local sources	2,136,990	207,614	2,344,604	2,338,050	2,338,050	6,554
State sources	2,063,745	2,983	2,066,728	2,285,361	2,285,361	(218,633)
Federal sources	480,080	79,301	559,381	389,000	389,000	170,381
Total receipts	4,680,815	289,898	4,970,713	5,012,411	5,012,411	(41,698)
Disbursements:						
Instruction	3,336,039	-	3,336,039	3,462,000	3,462,000	125,961
Support services	1,175,277	-	1,175,277	1,488,978	1,488,978	313,701
Non-instructional programs	8,910	298,814	307,724	298,900	298,900	(8,824)
Other expenditures	370,848	-	370,848	382,374	382,374	11,526
Total disbursements	4,891,074	298,814	5,189,888	5,632,252	5,632,252	442,364
Excess (deficiency) of receipts over (under) disbursements	(210,259)	(8,916)	(219,175)	(619,841)	(619,841)	400,666
Other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(210,259)	(8,916)	(219,175)	(619,841)	(619,841)	400,666
Balance beginning of year	631,937	(31,227)	600,710	617,469	617,469	(16,759)
Balance end of year	421,678	(40,143)	381,535	(2,372)	(2,372)	383,907

See accompanying independent auditor's report.

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Type		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	4,680,815	12,586	4,693,401
Expenditures	4,891,074	28,587	4,919,661
Net	(210,259)	(16,001)	(226,260)
Other financing sources (uses)	-	-	-
Beginning fund balances	631,937	13,300	645,237
Ending fund balances	421,678	(2,701)	418,977

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	289,898	11,176	301,074
Expenditures	298,814	7,369	306,183
Net	(8,916)	3,807	(5,109)
Beginning fund balances	(31,227)	32,128	901
Ending fund balances	(40,143)	35,935	(4,208)

See accompanying independent auditor's report.

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2005, disbursements in the non-instructional programs function exceeded the amount budgeted. The District did not exceed its General Fund unspent authorized budget.

Other Supplementary Information

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2005

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	863	5,240	56,863	62,966
Property tax receivable:				
Current year	1,932	-	2,040	3,972
Succeeding year	110,000	-	124,602	234,602
Total assets	112,795	5,240	183,505	301,540
Liabilities and Fund Equity				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	110,000	-	124,602	234,602
	110,000	-	124,602	234,602
Fund equity:				
Unreserved fund balance	2,795	5,240	58,903	66,938
Total liabilities and fund equity	112,795	5,240	183,505	301,540

See accompanying independent auditor's report.

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Special Revenue Funds

Year ended June 30, 2005

	Management	Student	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	79,978	-	84,483	164,461
Other	-	121,713	454	122,167
State sources:	78	-	83	161
Total revenues	80,056	121,713	85,020	286,789
Expenditures:				
Instruction:				
Regular instruction	43,917	-	-	43,917
Co-curricular instruction	-	126,819	-	126,819
Support services:				
Student services	496	-	3,206	3,702
Instructional staff services	1,520	-	-	1,520
Administration services	5,112	-	-	5,112
Plant operation and maintenance	1,890	-	-	1,890
Student transportation	13,574	-	66,097	79,671
Non-instructional programs				
Food service operations	1,306	-	-	1,306
Other expenditures:				
Facility acquisition and construction services	-	-	-	-
Total expenditures	67,815	126,819	69,303	263,937
Excess (deficiency) of revenues over (under) expenditures	12,241	(5,106)	15,717	22,852
Other financing sources(uses):				
Operating transfers in	-	-	531	531
Operating transfers (out)	-	-	(58,205)	(58,205)
	-	-	(57,674)	(57,674)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	12,241	(5,106)	(41,957)	(34,822)
Fund balances beginning of year	(9,446)	10,346	100,860	101,760
Fund balances end of year	2,795	5,240	58,903	66,938

See accompanying independent auditor's report.

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
All HS Athletics	(1,645)	586	1,085	(2,144)
HS Uniforms	438	1,528	3,226	(1,260)
HS Football	2,046	5,720	8,270	(504)
HS Basketball	3,707	5,854	2,794	6,767
HS Track	(4,786)	1,011	4,795	(8,570)
HS Golf	(2,899)	1,186	2,805	(4,518)
HS Baseball/Softball	(7,830)	5,124	6,226	(8,932)
HS Volleyball	(975)	1,687	1,895	(1,183)
HS Wrestling	2,940	8,323	5,999	5,264
Class of 2006	1,010	16,109	10,855	6,264
Class of 2003	333	-	333	-
Class of 2004	2,010	932	2,942	-
Class of 2005	2,178	568	3,132	(386)
Student Fees	-	9,549	9,549	-
All JH Athletics	1,734	5,474	5,008	2,200
JH Football	(104)	164	1,165	(1,105)
JH Volleyball	(224)	177	400	(447)
JH Basketball	(574)	432	220	(362)
JH Track	(310)	492	362	(180)
JH Baseball/Softball	(1,392)	1,392	495	(495)
Pictures	493	709	210	992
Project Graduation	342	9,487	8,257	1,572
RIF	187	750	626	311
HS Activities	-	3,396	3,396	-
Student Insurance	-	87	87	-
Student Lounge Pop	4,488	20,096	17,588	6,996
Student Awards & Honors	15	1,003	1,168	(150)
Student Lounge Vending	-	220	220	-
Annual/Yearbook	(17)	87	-	70
JH Band Club	5,968	190	6,042	116
HS Band Club	3,791	7,963	6,322	5,432
Speech Club	(3,137)	1,675	2,900	(4,362)
JH Vocal Club	85	-	-	85
SH Vocal Club	(13)	-	-	(13)
National Honor Society	-	1,894	1,865	29
DECA	(1,637)	1,649	1,622	(1,610)
JAG	36	3,491	3,522	5
Chopper Club	266	2	65	203
HS Cheerleading	548	2,347	2,192	703
Youth Softball	487	2,830	2,641	676
FCA	1	333	283	51
JH Student Council	1,411	3,312	2,872	1,851
SH Student Council	1,375	1,106	607	1,874
	10,346	128,935	134,041	5,240
Less interaccount transfers		(7,222)	(7,222)	
Total	10,346	121,713	126,819	5,240

See accompanying independent auditor's report.

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Combining Statement of Net Assets
Nonmajor Proprietary Funds

June 30, 2005

	Eagles Nest	Daycare	Total
	\$	\$	\$
Assets			
Inventories	14,358	-	14,358
Capital assets, net of accumulated depreciation	-	12,898	12,898
Total assets	<u>14,358</u>	<u>12,898</u>	<u>27,256</u>
Liabilities			
Interfund payable	<u>27,182</u>	<u>12,996</u>	<u>40,178</u>
Net Assets			
Invested in capital assets, net of related debt	-	12,898	12,898
Unrestricted	<u>(12,824)</u>	<u>(12,996)</u>	<u>(25,820)</u>
Total net assets	<u>(12,824)</u>	<u>(98)</u>	<u>(12,922)</u>

See accompanying independent auditor's report.

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Combining Statement of Revenues, Expenses and Changes in Net Assets
Nonmajor Proprietary Funds

Year ended June 30, 2005

	Eagles Nest	Daycare	Total
	\$	\$	\$
Operating revenue:			
Local sources:			
Charges for goods and services	<u>23,311</u>	<u>91,821</u>	<u>115,132</u>
Operating expenses:			
Non-instructional programs:			
Other enterprise operations			
Salaries	3,276	65,905	69,181
Benefits	4,150	8,663	12,813
Supplies	16,816	15,431	32,247
Depreciation	<u>-</u>	<u>6,383</u>	<u>6,383</u>
Total operating expenses	<u>24,242</u>	<u>96,382</u>	<u>120,624</u>
Operating (loss)	<u>(931)</u>	<u>(4,561)</u>	<u>(5,492)</u>
Non-operating revenues:			
Contributions	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net assets	(931)	(4,561)	(5,492)
Net assets beginning of year	<u>(11,893)</u>	<u>4,463</u>	<u>(7,430)</u>
Net assets end of year	<u><u>(12,824)</u></u>	<u><u>(98)</u></u>	<u><u>(12,922)</u></u>

See accompanying independent auditor's report.

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Combining Statement of Cash Flows
Nonmajor Proprietary Funds

Year ended June 30, 2005

	Eagles Nest	Daycare	Total
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of inventory	23,311	-	23,311
Cash received from sale of services	-	91,821	91,821
Cash payments to employees for services	(7,426)	(74,568)	(81,994)
Cash payments to suppliers for goods or services	(25,005)	(15,431)	(40,436)
Net cash (used in) operating activities	(9,120)	1,822	(7,298)
Cash flows from noncapital financing activities:			
Contributions	-	-	-
Cash flows from capital financing activities:			
Acquisition of capital assets	-	(1,171)	(1,171)
Net (decrease) in cash and cash equivalents	(9,120)	651	(8,469)
Cash and cash equivalents beginning of year	(18,062)	(13,647)	(31,709)
Cash and cash equivalents end of year	(27,182)	(12,996)	(40,178)
Reconciliation of operating income (loss) to net cash used in operating activities:			
Operating (loss)	(931)	(4,561)	(5,492)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:			
Depreciation	-	6,383	6,383
(Increase) in inventory	(8,189)	-	(8,189)
	(9,120)	1,822	(7,298)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:			
Current liabilities:			
Interfund payable	(27,182)	(12,996)	(40,178)

See accompanying independent auditor's report.

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2005	2004	2003	2002
	\$	\$	\$	\$
Local sources:				
General	1,296,226	1,387,607	1,395,169	1,340,808
Special revenue	164,461	168,115	166,184	166,156
Capital projects	179,501	253,820	190,715	214,914
	<u>1,640,188</u>	<u>1,809,542</u>	<u>1,752,068</u>	<u>1,721,878</u>
State sources:				
General	2,063,584	1,932,992	2,034,510	1,923,513
Special revenue	161	155	167	154
	<u>2,063,745</u>	<u>1,933,147</u>	<u>2,034,677</u>	<u>1,923,667</u>
Federal sources:				
General	<u>480,080</u>	<u>304,194</u>	<u>259,370</u>	<u>325,576</u>
Total	<u><u>4,184,013</u></u>	<u><u>4,046,883</u></u>	<u><u>4,046,115</u></u>	<u><u>3,971,121</u></u>

See accompanying independent auditor's report.

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u> \$
Direct:			
U.S. Department of Education:			
Small Rural School Achievment	84.358A	FY05	26,427
Department of Agriculture:			
Iowa Department of Education:			
Food Distribution (non-cash)	10.550	FY05	11,176
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY05	14,240
Fruit and Vegetable Pilot Grant	10.555	FY05	5,806
National School Lunch Program	10.555	FY05	59,255
			79,301
Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	6096-G-05	64,519
Safe and Drug-Free Schools and Communities - States Grants	84.186	FY05	2,348
Charter School	84.282	FY05	175,000
Innovative Education Program Strategies	84.298	FY05	2,637
Grants for Assessments and Related Activities	84.369	FY05	3,048
Improving Teacher Quality - States Grants	84.367	FY05	25,554
Vocational Education - Basic Grants to States	84.048	FY05	100,872
Star Schools Program	84.203	FY05	3,504
Comprehensive School Reform Program	84.332A	FY05	35,079
Funds for the Improvement of Education	84.215K	FY05	22,019
Prairie Lakes Area Educational Agency:			
Special Education - Grants to States (Success 4)	84.027	FY05	2,000
Special Education - Grants to States (IDEA Part B)	84.027	FY05	23,323
U.S. Department of Health and Human Services:			
Calhoun County Public Health Nurse:			
Title XIX Medical Assistance Program	93.778	FY05	4,894
Total			581,701

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Southeast Webster Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basis financial statements.

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

To the Board of Education of the
Southeast Webster Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Southeast Webster Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated July 15, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Southeast Webster Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 05-II-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southeast Webster Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Southeast Webster Community School District and other parties to whom Southeast Webster Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Southeast Webster Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

July 15, 2005

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control
over Compliance in Accordance with OMB Circular A-133**

To the Board of Education of the
Southeast Webster Community School District:

Compliance

We have audited the compliance of Southeast Webster Community School District, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Southeast Webster Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants agreements applicable to each of its major federal programs is the responsibility of Southeast Webster Community School District's management. Our responsibility is to express an opinion on Southeast Webster Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Southeast Webster Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Southeast Webster Community School District's compliance with those requirements.

In our opinion Southeast Webster Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Southeast Webster Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Southeast Webster Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Southeast Webster Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item 05-III-A of the accompanying Schedule of Findings and Questions Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item 05-III-A is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Southeast Webster Community School District and other parties to whom Southeast Webster Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

BRUCE D. FRINK
Certified Public Accountant

July 15, 2005

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A reportable condition in internal control over major programs was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which was required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The District's major program was as follows:
 - CFDA Number 84.282 - Charter School Program
 - CFDA Number 84.048 - Vocational Education - Basic Grants to States
 - Clustered Programs:
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.555 - Fruit and Vegetable Pilot Grant
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Southeast Webster Community School District did not qualify as a low-risk auditee.

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Part II: Findings Related to the General Purpose Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

05-II-A Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We have noted the duties of the individual include: 1) preparation of checks, signing of checks, recording the transactions in the journals, and reconciling the bank; 2) receiving cash receipts, preparing the receipt, making up the bank deposit, and recording the transaction in the journals.

Recommendation - We realize with a limited number of administrative employees, segregation of duties to eliminate incompatible duties is difficult. We also realize the job description, as defined by the Code of Iowa, of certain members of the administrative staff make the segregations even more difficult and the elimination of the possibility of administrative override of the system improbable. However, we feel the board and administration should review these policies annually and with each personnel change to insure the best possible control climate is maintained.

Response - We will investigate possible alternatives to this situation.

Conclusion - Response accepted.

05-II-B Negative Student Activity Fund Balance - We noted that several individual accounts in the Student Activity Fund had deficit fund balances, particularly Speech and Annual accounts. Each account is suppose to be self-supporting or receive additional funding from either other Student Activity accounts or General Fund supplements. General Fund support is subject to restrictions that any expenditures paid for must be allowable General Fund expenditures.

Recommendation - We recommend that the District bring these funds into positive financial condition.

Response - We will investigate the various options and bring the funds into a positive financial condition.

Conclusion - Response accepted

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Part III: Findings and Questioned Costs For Federal Awards

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 10.553 - School Breakfast Program
CFDA Number 10.555 - National School Lunch Program
CFDA Number 10.555 - Fruit and Vegetable Pilot Grant
Federal Award Year: 2005
US Department of Agriculture
Passed through Iowa Department of Education

CFDA Number 84.282 - Charter School Program
Federal Award Year: 2005
US Department of Education
Passed through Iowa Department of Education

CFDA Number 84.048 - Vocational Aid - Basic Grant to States
Federal Award Year: 2005
US Department of Education
Passed through Iowa Department of Education

05-III-A Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We have noted the duties of the individual include: 1) preparation of checks, signing of checks, recording the transactions in the journals, and reconciling the bank; 2) receiving cash receipts, preparing the receipt, making up the bank deposit, and recording the transaction in the journals.

Recommendation - We realize with a limited number of administrative employees, segregation of duties to eliminate incompatible duties is difficult. We also realize the job description, as defined by the Code of Iowa, of certain members of the administrative staff make the segregations even more difficult and the elimination of the possibility of administrative override of the system improbable. However, we feel the board and administration should review these policies annually and with each personnel change to insure the best possible control climate is maintained.

Response and Corrective Action Planned - We will investigate possible alternatives to this situation.

Conclusion - Response accepted.

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Part IV: Other Findings Related to Required Statutory Reporting

05-IV-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

05-IV-B Certified Budget - Disbursements for the year ended June 30, 2005, exceeded the certified budget amounts in the non-instructional programs and other expenditures.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

05-IV-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

05-IV-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

05-IV-E Business Transactions - No business transactions between the District and District officials or employees were noted.

05-IV-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

05-IV-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.

05-IV-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

05-IV-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

05-IV-J Certified Enrollment - The number of basic resident students reported to the Iowa Department of Education on line 7 of the Certified Enrollment Certification Form for September 2004 was overstated. The District's certified enrollment count included two students on Line 2 who were no longer open enrolled out to another district.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management.

Conclusion - Response accepted.

SOUTHEAST WEBSTER COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Part IV: Other Findings Related to Required Statutory Reporting
(continued) :

05-II-K Financial Condition - The District's Enterprise Fund - Eagles Nest had a deficit fund balance of \$12,824 at June 30, 2005. The District's Enterprise Fund - Daycare had a deficit fund of \$98 at June 30, 2005.

Recommendation - The District should investigate alternatives to bring these funds into a positive financial condition.

Response - We will comply with the recommendation.

Conclusion - Response accepted.